

## COMMUNITY INVOLVEMENT

SBC has a long tradition of community involvement, working as a catalyst for improvement and change.

Through Southwestern Bell Foundation, the company has made substantial contributions in an assortment of areas, focusing primarily on:

- Education
- Community/Economic Development
- Health and Human Services
- Civic Affairs
- Cultural Events
- United Way

Here's a sampling of Southwestern Bell's involvement:

### Education

Southwestern Bell is using its human, technical and financial resources to improve the quality of education, and to better prepare all children for the future workforce and emerging information age.

This is being done by focusing on four major areas:

*Mathematic and Science Excellence* – teacher development, curriculum enhancement, career education

*Increased Minority Participation* – objective is to encourage more minority students to excel in and pursue math and science-related careers

*Technology Applications to Enhance Education* – distance learning, voice messaging, interactive video systems integration

*Building Collaborative Efforts* – working with business, education and the community in being a catalyst in school restructuring

Work in education includes reform efforts such as Re:Learning, which changes the way students are taught in the classroom; Adult Literacy programs; sharing expertise in management and training with the education community; "Success in School is Homemade" which helps parents play a more proactive role in education of their children; tutoring programs; aiding at-risk youth by bolstering self-esteem; Adopt-A-School programs.

### Community/Economic Development

Gave \$1.5 million in economic development grants for variety of projects, including development of marketing plans, strategic planning studies, tax-planning support, videos and research. Also provide consulting services to organizations on telecommunications infrastructure related to economic development.

### United Way

Southwestern Bell employees give almost \$6.7 million each year to the United Way, with Southwestern Bell Foundation providing an additional \$3.5 million in grants.

### Older Adults

Southwestern Bell supports numerous organizations dedicated to the needs of older adults, including AARP; Senior Olympics; Silver-Haired Legislature; Area Agency on Aging; National Council on Aging; Older Women's League; Senior Link, Inc.; and SeniorNet.

This support includes dialogues to consumers about changes in telecommunication services, senior centers, meals to seniors, help in health services, help in holding Senior Olympics events and Caregiver seminars.

### Persons with Disabilities

Southwestern Bell supports countless organizations of persons with disabilities, including Easter Seals; Special Olympics; March of Dimes; National Association of the Deaf; Council of the Blind; Paraquad; Muscular Dystrophy and United Cerebral Palsy Association.

The support ranges from financial help to helping with continuing education programs, seminars on telecommunications services, help in holding Special Olympics.

### Volunteer Involvement Program

Company encourages and lends financial support to employees and retirees who are actively involved with educational, cultural, community and health services groups.

In addition, the company's more than 60,000 employees personally support activities and organizations from virtually all segments of the population.

These activities include work with advocacy groups representing abused and neglected children; therapy organizations that raise and train street certified dogs for the disabled; youth sports; AIDS awareness; emergency hotlines for abused women.

## FUTURE SERVICE AND PLANS

Broadcast video entertainment television is but the first application of the cable television network. Southwestern Bell Corporation views the network as an infrastructure which will evolve to support a broader spectrum of services than those currently provided. The availability of new technology, programming, cost efficiencies of technology, and consumer demand will determine the justification for the evolution of this network and its new applications.

In the near term (2-5 years), the deployment of more fiber optic cable and compression technology may provide for an improved picture quality and more channels of service. With the new channels may come more service options for the consumer. Near-video-on-demand is an example of a new service where recent movies could be shown on different channels every fifteen minutes.

The medium term (5-7 years) may offer the ability to provide more inter-activity through intelligent converters, more fiber, and interactive programming. This sort of programming may include video games, library services, reservation services, and educational programs.

The long term (7-10 years) may offer more inter-activity and potentially telephony services. At this point, due to the deployment of fiber technology and the expansive availability of channels, video-on-demand may be possible where a subscriber would select a movie listing from a video catalog for viewing at his/her leisure.

All of the above projects depend on the availability of technology and programming, associated costs of implementation, and the market demand. No revenues nor extra capital requirements have been included in the proforma for the provision of these unique services.

## *SBC'S VISION FOR CABLE IN MONTGOMERY COUNTY*

Southwestern Bell Corporation and SBC Media Ventures have a vision to build flexible, cost-effective networks which will offer video, data, and voice services over a common network platform. The Montgomery cable system is a starting point for such a platform in Montgomery County, Maryland. Over time, new market-driven services will be offered in Montgomery County over this network platform which will meet specific customer segment needs.

Cable television customers can be segmented into two categories:

- o customers who can best be served by an evolution of the existing cable television network (residences and small businesses already passed by the cable network)
- o information-intensive customers (large businesses, aggregated medium businesses, government agencies, hospitals, schools) who are usually not passed by the cable network

Fulfilling our vision for the first category of customers begins by adding to the channel capacity through compression for entertainment video. New services can be offered faster and more cost effectively as we employ a more flexible network architecture. This architecture will allow the network to evolve from principally an entertainment distribution platform to a multimedia telecommunications platform.

The evolution might include:

- o increased programming services,
- o near video on demand (NVOD),
- o true video on demand (VOD),
- o multimedia information and transaction services, and
- o voice, data and video telephony.

Initially, the network and service migration is likely to involve the first two items above: increased programming services and NVOD. NVOD services might offer the "top 10" movies, each of which would start every 15 minutes using eight channels. NVOD technology is available now from such leading suppliers of cable television network equipment as Scientific Atlanta and General Instruments (Jerrold).

These first migration steps require extensive upgrades of the network distribution portion of the existing network. The present network performs four major functions:

- o collecting programming from various sources
- o placing programming on channels for broadcast over an enclosed network
- o carrying the programming to the home (network distribution)
- o interfacing with the customer's television set, allowing program selection

Adding VOD and voice, data, and video telephony services to a cable television network requires massive switching, selection, and storage during the "collecting programming" and "placing programming" functions. The addition of network technology to support these services would be very costly given today's network architecture; costs which are not justifiable based on customer demand at this time. Much of the infrastructure in the distribution portion of the network may be extended to enable these new services as hardware and software are developed.

The development and deployment of advanced technology in the cable television network will be driven by customer demands for services. These demands will not develop overnight; it takes time for cultural shifts and for social acceptance of changing the way people communicate with one another and interact with technology.

SBC believes that cost-effective network components will become available and that major forces-- technology, marketplace and economics --will come together to allow a coherent series of new services. We are looking into customer needs and are investigating all the various factors of demand, costs, and architectures. And we have a vision of how the networks and services might develop over time.

Following is a list of services areas which are some of the possibilities in a multimedia world:

Entertainment-on-Demand services: Choosing from a video movie library of 1000 or more titles, popular and documentary, with previews of each available, a subscriber can order immediate or pre-scheduled delivery of any of the movies. A subscriber also can order delivery of recent TV shows, using a virtual VCR time-shifting service, and delivery of an electronic TV-Movie Guide, with reviews and previews.

Interactive Network Games services: Choosing from a game library of 100 or more titles, a subscriber can order immediate or pre-scheduled participation in any of the games, with pre-arranged or unspecified competitors or partners. The licensee connects the purchaser electronically into the play of the game.

Shopping services: Choosing from a video catalog of 10,000 or more items of merchandise offered by various vendors, a subscriber can order any of the items for delivery to the home.

Customized Publishing services: Choosing from a video catalog of 10,000 or more publications offered by various publishers, a subscriber can order delivery of any of the items.

Multimedia Teleconferencing services: Choosing from a directory of teleconference-equipped households, businesses, or schools, a subscriber can order

immediate or pre-scheduled participation in a teleconference, with pre-arranged or on-call partners. The licensee connects the purchaser electronically into the teleconference.

**Healthcare services:** Many evolving trends in health care will make this one of the more valuable applications in the multimedia environment. Today, homes are returning as the focal point of family decision making and care, many chronic illnesses and diseases are becoming predominate, and much effort in medical research is focused on prevention of the aforementioned medical conditions.

**Education services:** With nationwide attention to the quality of education in the U.S., today's emerging technologies will allow multimedia distance learning and training. These services may be applied at all levels of education and will span all income levels and living areas. Rural areas, in particular, can prosper from distance educational applications.

New services are likely to be deployed on a highly selective basis to verify demand and to test new technologies. These deployments will also attempt to aggregate demand for separate applications or services across distinctly unique market segments (e.g., information-intensive businesses and government agencies, residences, schools) in certain locales. Further, new service deployment will be based upon incremental financial analysis.

This incremental and selective approach is essential to appropriate consideration of what is possible (technology), needed (marketplace), and affordable (economics).

## **TECHNOLOGY**

The present cable television system for Montgomery County is among the most advanced in the United States in delivering cost-effective broadcast video. Technically, the system is an analog (see below) system with coaxial cable as its primary distribution medium.

Since the system is "analog," it delivers a signal which is similar to that provided by over-air broadcasters (e.g., Channel 3), but this signal is transmitted at higher frequencies over the enclosed cable television network. The set-top converts the signal to frequencies accepted by TV sets.

The maximum frequency range (bandwidth) of the network is 450 MHz. At 6 MHz per channel and after accounting for portions of the spectrum that are blocked from use by the FCC, the Montgomery County system has a capacity to carry up to 68 channels.

This present analog system may be converted to a more robust network incrementally. The future network will be capable of many more dedicated video channels downstream, more selective and interactive video (various forms of video on demand) and many other services, including integrated voice, data, and video telephony.

These services are possible through several advances in technology:

- o increasingly cost-effective fiber, lasers and associated electronics, allowing more bandwidth and clearer pictures over longer distances
- o digital compression, allowing many more channels of digital video in conjunction with the analog channels
- o more cost-effective digital encoding, decoding and signal processing, allowing integrated voice, data and video telephony (even multimedia) systems
- o advanced computing, cost-performance improvements in microprocessor hardware and software, automated software development, relational database and client-server architectures, information networking, windows and improved graphics user interfaces

The upgrade of the system to a multimedia platform employs all these advances in technology. First, fiber backbones could be built from the headend out to fiber nodes, each of which serves approximately 500 homes. This would allow a more reliable signal, more channels, and in the nodes themselves, a facility for powering and digital telecommunications.

Second, the bandwidth of the system may be increased from 450 MHz to 750 MHz. This change would increase the number of channels and allow a wider assortment of services.

Third some analog channels of the system may be modulated to carry compressed digital channels, resulting in perhaps 10 digitally compressed channels for each 6 MHz analog channel. Applications for this capacity may include NVOD, VOD, and multimedia electronic information services.

Fourth, some services might require switching (for selection) and possibly mass-storage devices (for retrieval) by the subscriber. Software and hardware interfaces may be developed to offer the customer a user-friendly interface, seamlessly coordinating the system elements and programming sources.

Before widespread commercial deployment of these advanced services is possible and affordable, significant research and development are required. In the meantime, Southwestern Bell is investigating possibilities of alternate architectures, emerging new technologies, and options available from individual vendors.

An investigative approach is required to avoid the creation of capital-intensive networks that are not market-focused, resulting in cost burdens from the inappropriate deployment of technology. To offset this risk, market research is underway to identify services which would meet the needs of customers in the residence, small businesses, and in work-at-home situations.

This knowledge will help us to tailor the networks and services of tomorrow to the customers' needs. We will choose technology that is flexible, scalable, and allows a migration of architecture and services over time.

### *SOUTHWESTERN BELL CORPORATION*

Today's industry leaders and government policy makers have stated that they believe the development and rapid deployment of a nationwide, universal, integrated broadband network, capable of delivering ubiquitous new interactive multimedia telecomputing services, would be a vital stimulus to the long-term economic prosperity of the U.S.. Such a network may be a cost-effective way to:

- Enhance business productivity and efficiency, for virtually all businesses, large and small.
- Dramatically stimulate education.
- Enhance individual satisfaction and excitement.
- Enhance individuals' access to health care.
- Enhance U.S. ability to compete in the world marketplace.
- Perceptibly upgrade quality of life, for all.

Southwestern Bell Technology Resources (TRI) has over 200 employees that specialize in all key technologies relevant to the provision of voice, data, and video telecommunications services. These experts are actively involved in influencing the direction of technology development.

The cable television systems of tomorrow will benefit from the convergence of digital broadband telecommunications technology, advanced computing, data communications technology, and switching. Southwestern Bell is actively involved in evaluating and testing these new technologies and has been instrumental in advancing several of these areas of development.

Southwestern Bell has experience in offering cable television services and telephony in its systems in the U.K., where such competition has been encouraged by government policy. We have been testing the degree of integration possible technically and the needs of the marketplace in the most progressive of competitive environments.

Southwestern Bell has a wealth of resources to apply to the evolution of the Montgomery County cable television network. With these resources, we will



continually seek technologies which can cost-effectively be deployed to meet the service needs of our subscribers.

October 15, 1993  
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SETTLEMENT AGREEMENT

THIS AGREEMENT is made this 15th day of October, 1993, by  
and between:

1. Montgomery County, Maryland, a charter county organized under Maryland law ("County");
2. Montgomery Cablevision Limited Partnership ("MCLP"), a Delaware limited partnership; and
3. SBC Media Ventures, Inc. ("SBC-MV"), a Delaware corporation.

WITNESSETH:

WHEREAS, on May 25, 1983, the County entered into an agreement with Tribune-United Cable of Montgomery County, a limited partnership ("Tribune-United"), pursuant to which the County granted Tribune-United a franchise to operate a cable television system in the County; and

WHEREAS, on November 14, 1986, the County approved the transfer of control of Tribune-United to MCLP and the subsequent transfer of the franchise to MCLP, and MCLP and the County entered into an Agreement that, as subsequently amended, modified the Tribune-United cable franchise and granted that franchise to MCLP ("Franchise Agreement"); and

WHEREAS, SBC-MV, Southwestern Bell Corporation ("SBC"), a Delaware corporation, and MCLP have entered into an Asset Purchase Agreement dated February 5, 1993 ("Asset Purchase Agreement"), pursuant to which SBC-MV would acquire the cable system owned and operated by MCLP; and

WHEREAS, MCLP has requested the County's approval for a transfer to SBC-MV of the franchise granted to MCLP and all of MCLP's rights and obligations under the franchise ("the Transfer"); and

WHEREAS, the County believes the Proposed Transaction creates risks affecting the public interest and the benefits that the County and its citizens receive under the present franchise; and

WHEREAS, the County has legal authority under County, state and federal law to approve or disapprove the requested transfer if the public interest would be served thereby; and

WHEREAS, the County Executive has concluded that SBC-MV possesses the technical, financial, legal, and character qualifications required for a transferee pursuant to the Franchise Agreement and Montgomery County Code 1984, as amended, Chapter 8A ("County Cable Communications Law"), and that the Transfer would serve the public interest, provided certain actions as set forth in this Settlement Agreement are taken by MCLP and SBC-MV to protect the public interest and resolve the risks associated with the Transfer;

NOW, THEREFORE, in consideration of the promises and undertakings herein, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and subject to the Closing of the Proposed Transaction as contemplated by the Asset Purchase Agreement, THE PARTIES DO HEREBY AGREE as follows:

SECTION 1. DEFINITIONS

1.1. "Benchmark Rates" means the total of the maximum permissible basic and cable programming service rates SBC-MV would be permitted to charge under the Federal Communications Commission's ("FCC") benchmark method of regulation.

1.2. "Closing" means the closing of the Proposed Transaction in the manner and on the date defined in the Asset Purchase Agreement.

1.3. "Combined Regulated Service Rates" means the total of the rates charged for regulated basic and cable programming service tiers.

1.4. "Final Balance Sheet" means a complete balance sheet of MCLP immediately prior to the Closing, disclosing its assets, its liabilities, and the equity of the owners, in conformity with generally accepted accounting principles. However, this statement will exclude any and all assets and liabilities

recognized or attributable to the Proposed Transaction, or in anticipation thereof.

1.5. "Settlement Agreement Showing" shall have the meaning ascribed to that term in Section 4.3.2 below.

1.6. "Proposed Transaction" means SBC-MV's acquisition of the cable system owned and operated by MCLP pursuant to the Asset Purchase Agreement.

1.7. "Cost-of-Service Showing" means any cost-of-service showing SBC-MV elects to make under the FCC's cost-of-service method of regulation for basic and cable programming service rate tiers.

## SECTION 2. TRANSFER OF FRANCHISE

2.1. In consideration for the promises and performances of MCLP and SBC-MV, as expressed elsewhere in this Settlement Agreement, upon recommendation of the County Executive and approval of the Montgomery County Council ("Council") and the municipalities that are signatories to the Franchise Agreement ("Participating Municipalities"), the franchise currently held by MCLP will be transferred to SBC-MV at the Closing.

2.1.1. None of the benefits received by the County in consideration for the Transfer shall be franchise requirements.

2.1.2. It is expressly recognized by the parties that the Transfer is subject to the recommendation of the County Executive and requires the approval of the County Council in

accordance with County law. Such approval is a condition precedent to this Settlement Agreement. The execution of this Settlement Agreement in no way binds the Council to approve the Transfer, and this Settlement Agreement will automatically become null and void if the Council does not approve the Transfer.

2.1.3. It is expressly recognized by the parties that the Transfer must be approved by the Participating Municipalities. If one or more of the Participating Municipalities fails to approve the Transfer, then this Settlement Agreement may be terminated at the option of any party or amended by mutual agreement of the parties.

2.2. The parties agree that a purpose of this Settlement Agreement is to settle any open claims and disputes regarding the Franchise Agreement and to fully settle any risks arising from the Proposed Transaction that might affect the public interest or the benefits that the County and its citizens receive under the present franchise.

2.3. To the extent that this Settlement Agreement may require any modifications to the terms and conditions of the Asset Purchase Agreement, MCLP and SBC-MV agree to make such modifications prior to the Transfer.

### SECTION 3. NO EFFECT ON FRANCHISE REQUIREMENTS

3.1. SBC-MV accepts and acknowledges all the obligations, continuing and future, of the franchisee embodied in the

Franchise Agreement, as amended, and the County Cable Communications Law.

3.2. Nothing in this Settlement Agreement, including, but not limited to, the provisions of Section 7.1 below, amends or alters the Franchise Agreement or any requirements therein or the County Cable Communications Law in any way, and all provisions of the Franchise Agreement and the County Cable Communications Law remain in full force and effect and are enforceable in accordance with their terms and with applicable law.

3.3. The parties will move expeditiously and in good faith to agree to any specific modifications to the Franchise Agreement that are necessary to implement the Transfer (for example, to change the name of the franchisee). If the parties are unable to reach agreement on such modifications, this Settlement Agreement may be terminated at the option of any party or amended by mutual agreement of the parties.

3.4. No provision of this Settlement Agreement is or creates a franchise requirement.

3.5. Any and all new expenses incurred by MCLP or SBC-MV in fulfillment of their respective obligations under this Settlement Agreement are the sole and exclusive responsibility of and are personal to MCLP and will not be pre-closing costs.

3.5.1. SBC-MV hereby acknowledges that it will be fully and completely compensated for its expenses by MCLP.

3.5.2. MCLP hereby acknowledges that all new expenditures associated with this Settlement Agreement will be paid by MCLP from net proceeds realized from the Proposed Transaction and will not in any way be attributable to, allocable to or caused by the subscribers of the cable system or the requirements of the franchise.

3.5.3. No new costs associated with or specified in this Settlement Agreement may be passed through to subscribers in any form, itemized on subscriber bills, reflected in MCLP's Final Balance Sheet or in any accounting statements of SBC-MV related to establishing cable system subscriber or user charges, or attributed to the capital costs or operating expenses of the cable system serving the County. Notwithstanding the previous sentence, MCLP and SBC-MV may agree between themselves on the tax treatment of the expenses related to this Settlement Agreement, provided, however, that such agreement has no purpose or effect related to cable system subscribers or user charges.

3.5.4. To the extent that any new costs associated with or specified in this Settlement Agreement are allocated in any way to SBC-MV, SBC-MV assumes the risk of such allocation as a cost to the owners of SBC-MV, not to the County or to cable users or subscribers.

3.6. Each party to this Settlement Agreement, after consultation with its legal counsel as to the facts surrounding this Settlement Agreement, concludes and agrees that no



consideration provided pursuant to this Settlement Agreement is required by the franchise or can be construed to constitute a franchise fee, nor are any payments made, facilities provided, or services given under the terms of this Settlement Agreement subject to any limitations on franchise fees under applicable law or in the Franchise Agreement. Every party to this Settlement Agreement hereby waives any current or future claim to the contrary.

#### SECTION 4. RATES

4.1. It is the purpose and intent of all parties to this Settlement Agreement that the County, its residents, and users of the cable system provided pursuant to the franchise, including all cable subscribers, be protected from the risk that Combined Regulated Service Rates may exceed Benchmark Rates as a result of the purchase price of the Proposed Transaction. The provisions of this Settlement Agreement shall be interpreted to ensure that purpose is achieved. If and when the benchmark method of regulation is elected for a rate filing, this Section 4 shall not be applicable with respect to that filing.

4.2. Within ninety days after the Closing, MCLP's Final Balance Sheet shall be certified to the County as to its preparation in accordance with generally accepted accounting principles by an independent Big Six auditor acceptable to all parties. MCLP's Final Balance Sheet, as so certified, shall be

used for the purpose of applying Section 4.3.2. Acceptance of this balance sheet by the County will constitute acceptance of the accuracy of the financial information documented by the balance sheet. It shall not constitute acceptance by the County of the appropriateness or allowability of such financial information for purposes of establishing regulated rates and charges by SBC-MV.

4.2.1. All expenses associated with such certification shall be paid by MCLP as part of its obligations under this Settlement Agreement.

4.3. If SBC-MV files any Cost-of-Service Showing that involves any balance sheet item with respect to any cable service rate to be charged within three (3) years from the date of the Closing, SBC-MV and the County shall take the following steps:

4.3.1. SBC-MV will consult with the County to understand and consider the County's views prior to filing.

4.3.2. Promptly after final regulatory determination (i.e., including any applicable judicial review) of the highest permissible rates, in accordance with FCC regulations and applicable law, for all service tiers with respect to which SBC-MV has filed a cost-of-service showing as referred to in Section 4.3 above, SBC-MV will provide the County with a cost-of-service showing ("Settlement Agreement Showing") for both basic and cable programming service tiers utilizing as the only balance sheet the Final Balance Sheet, as adjusted according to generally accepted

accounting principles for SBC-MV's cable system operations after the Closing. SBC-MV will make no adjustments to the Final Balance Sheet for events or charges attributable to the costs of the Proposed Transaction, the Asset Purchase Agreement, or the Settlement Agreement, even if those events occur after the Closing.

4.3.3. For a period of three years from the date of the Closing, SBC-MV's rates shall not exceed the lower of: (a) the Combined Regulated Service Rates that result from the Cost-of-Service Showing; or (b) the Combined Regulated Service Rates that would be permitted based on the Settlement Agreement Showing, as finally determined pursuant to Sections 4.3.4, 4.3.5, or 4.3.6, as applicable; except that the permitted rates based on the Settlement Agreement Showing shall not be used to reduce SBC-MV's Combined Regulated Service Rates below the Benchmark Rates.

4.3.4. The County will review SBC-MV's Settlement Agreement Showing, determine in writing what Combined Regulated Service Rates would be permitted based on that showing in accordance with all applicable federal and local laws and regulations regarding cost-of-service ratemaking, and order appropriate relief, subject to the following limitation: the County and SBC-MV will be bound in respect to the Settlement Agreement Showing items submitted in accordance with Section 4.3.2, by any prior final regulatory determinations in the

corresponding Cost-of-Service Showing of allowability and appropriateness made with respect to those particular items.

4.3.5. SBC-MV may appeal the County's decision regarding the rates permitted based on the Settlement Agreement Showing to a mutually acceptable independent Big Six auditor. If SBC-MV elects to make such an appeal, SBC-MV will notify the County within thirty days after receipt of the County's written decision. SBC-MV and the County will each pay their own costs to appear before the auditor, but SBC-MV will pay the auditor's costs. SBC-MV and the County shall submit their evidence and arguments to such auditor, which will review the County's decision and either affirm that decision or otherwise determine Combined Regulated Service Rates based on the Settlement Agreement Showing, relying on applicable federal and local laws and regulations and in accordance with this Section 4, and order appropriate relief.

4.3.6. Within thirty days after receipt of the auditor's decision, either SBC-MV or the County may initiate an appeal of such a decision to a mutually acceptable independent arbitrator. In the event of such an appeal, SBC-MV and the County will each pay their own costs to appear before the arbitrator, but the appellant will pay the arbitrator's costs. SBC-MV and the County shall submit their evidence and arguments to the arbitrator, which will review the auditor's decision and either affirm that decision or otherwise determine Combined

Regulated Service Rates based on the Settlement Agreement Showing, relying on applicable federal and local laws and regulations and in accordance with this Section 4, and order appropriate relief. The arbitrator's decision will be final and binding on both the County and SBC-MV.

4.4. The procedures described in this Section shall not diminish or detract from the County's rights, in accordance with FCC regulations and applicable law, to set rates in the Cost-of-Service Showing proceeding, below those that would be permissible under the FCC's benchmark method.

4.5. The agreement expressed in this Section is not an agreement to regulate rates, but rather an agreement as to what costs SBC-MV will claim under a Settlement Agreement Showing.

4.6. To the extent that federal law would permit SBC-MV to make any claims contrary to this Settlement Agreement, SBC-MV voluntarily waives any such claims and privileges, and agrees that any contrary actions it might otherwise be permitted to take under FCC regulations and applicable law are matters of privilege which it knowingly and willingly waives in consideration for the benefits it has freely negotiated in this Settlement Agreement.

#### SECTION 5. GOVERNMENT NETWORK

5.1. At the Closing, MCLP will pay to the County \$6.0 million in cash or cash equivalent as instructed by the County. The County agrees that such payment, together with all other

undertakings herein by MCLP, settles all open claims and disputes relating to MCLP's performance under the Franchise Agreement through the date of this Settlement Agreement.

5.2. These funds are to be deposited in the County's Cable Television Special Revenue Fund and specifically designated for governmental institutional telecommunications purposes. The funds do not constitute franchise fees or franchise requirements.

5.3. SBC-MV acknowledges and accepts all franchise obligations regarding the G-Net and other institutional network facilities under the Franchise Agreement. Nothing in this Settlement Agreement shall replace or remove any such franchise obligations, including but not limited to any obligations regarding the maintenance and operation of the G-Net.

5.4. If the County elects to upgrade or extend its current G-Net facilities, SBC-MV, as franchisee, shall undertake to assist the County in accordance with the Franchise Agreement, as amended.

#### SECTION 6. ACCESS TO NEW FIBER CONSTRUCTION

6.1. If, as and wherever SBC-MV elects to deploy new bi-directional fiber-optic transmission facilities pursuant to its rights under the franchise or otherwise pursuant to lawful authority granted by the County, SBC-MV shall make available to the County free of charge transmission capacity on up to 300 linear plant miles of any such fiber-optic network which is

deployed prior to the end of the current franchise period. The capacity provided shall not exceed ten percent of the transmission service capacity of such network as designed by SBC-MV, and shall not exceed at any point on the network a maximum transmission service capacity of 4.8 gigabits per second, deployed over not more than two (2) fibers.

6.2. The County shall select at the time of County design approval from the total SBC-MV plant the segments that are to comprise all or part of the 300 linear plant miles. For the convenience of the parties, the design approval process shall be the same as the process specified in the Franchise Agreement.

6.3. SBC-MV shall consult and cooperate with the County concerning the timing and routing of the facilities specified in this Section. SBC-MV will make reasonable adjustments to its fiber deployment plans to accommodate the County's communications needs, as long as such adjustments do not result in significant adverse costs or operating consequences to SBC-MV.

6.4. SBC-MV will provide adequate advance notice to the County of its intentions to deploy any new services in the County such that the County is able to comment on the planned deployment and to participate in any trials of any new services which SBC-MV may conduct.

6.5. To the extent that the County does not utilize the entire capacity provided under this Section, SBC-MV may use that excess capacity for other purposes, provided, however, that any

such use shall be consistent with the County's rights in this Section. When the County wishes to make use of any or all of the capacity provided under this Section, it will provide SBC-MV with written notice, and SBC-MV will make the requested capacity available, up to the limits specified in this Section, within ninety days from the date it receives the County's request.

6.6. If the County wishes to use transmission capacity beyond its rights to free use in the Franchise Agreement or this Settlement Agreement, the charges for such use shall be freely negotiated on terms and conditions equal to or more favorable to the County than those offered to any other major user by SBC-MV.

6.7. Transmission service and capacity made available pursuant to this Section shall be solely for public non-commercial institutional use and shall not be subleased, or otherwise assigned, for compensation.

6.8. SBC-MV will be responsible for the construction, operation, network management, and maintenance of the facilities interconnecting the SBC-MV network to locations designated by the County.

6.9. SBC-MV shall interconnect its system and locations designated by the County in accordance with the preceding paragraph as follows:

6.9.1. SBC-MV shall interconnect each location to SBC-MV's fiber network at no cost to the County. SBC-MV will provide capability to allow for a standard interface format (such as DS1,



on all gross revenues of the franchisee or of any affiliate derived from the operation of the cable system within the franchise area during the period of the franchise insofar as such payments are consistent with the Franchise Agreement and the County Cable Communications Law.

7.2. The settlement of any open claims and disputes pursuant to Section 5.1 of this Settlement Agreement shall not affect the franchisee's obligation to pay franchise fees and access grant amounts in full as required by the Franchise Agreement and the County Cable Communications Law, in accordance with past practices for periods accruing after January 1, 1992.

#### SECTION 8. DISPUTES REGARDING THIS SETTLEMENT AGREEMENT

8.1. Neither SBC-MV, MCLP, nor any of their affiliates, nor the County, will take any action to challenge any provision of this Settlement Agreement as contrary to the Cable Communications Policy Act of 1984, 47 U.S.C. §§ 521 et seq., as amended ("1984 Cable Act"), or to FCC regulations; nor will they participate with any other person or entity in any such challenge. Any such action would constitute a material breach of this Settlement Agreement and of applicable law.

8.2. If and when any provision of this Settlement Agreement is found to be unenforceable in a final judicial or administrative proceeding,, the parties shall enter into good-faith negotiations with the intent of reaching an agreement that